

CITY OF COLFAX, IOWA

Independent Auditor's Reports
Basic Financial Statements and
Supplementary and Other Information
and Findings

June 30, 2013

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-9
Basic Financial Statements	
	<u>Exhibit</u>
Government-wide Financial Statement	
Cash Basis Statement of Activities and Net Position	A 10-11
Governmental Funds Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 12
Proprietary Funds Financial Statement	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 13
Fiduciary Funds Financial Statements	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 14
Notes to Financial Statements	15-21
Other Information	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances	
– Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	22-23
Notes to Other Information – Budgetary Reporting	24
Supplementary Information	
	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances	
– Nonmajor Governmental Funds	1 25
Schedule of Indebtedness	2 26-27
Bond and Note Maturities	3 28-29
Schedule of Receipts by Source and Disbursements by Function	
– All Governmental Funds	4 30
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31-32
Schedule of Findings	33-34

City of Colfax, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dick Reed	Mayor	January, 2016
Kathryn Gullion	Council Member	January, 2016
Brad Magg	Council Member	January, 2014 8
Bryan Poulter	Council Member	January, 2016
Steve Theis	Council Member	January, 2016
Karla Jones	Council Member	January, 2014 8
Kathy Mathews	City Clerk	Indefinite
Larry Opfer	Treasurer	Indefinite
John Billingsley and Ken Walker	City Attorneys	Indefinite

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANT

JAMES R. ZIRCHER, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Colfax

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax, Iowa as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted the audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax as of June 30, 2013, and the respective changes in cash financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Other Matters- Supplementary Information and Other Information

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2012 and expressed unqualified opinions on those financial statements (which are not presented herein) which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedule 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Other Information, Management Discussion and Analysis and the Budgetary Comparison information has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also included my report on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

April 30, 2014

Pollard and Company P.C.

CITY OF COLFAX MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Colfax provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements and the accompanying notes, which follow.

FINANCIAL HIGHLIGHTS

- The City's receipts totaled \$2,953,430 for the year ended June 30, 2013, a decrease from 2012 which was \$2,973,085.
- Disbursements for the year totaled 2,656,104 an increase from 2012 which was \$2,591,870.
- The City's cash basis net assets for governmental activities as of June 30, 2013 were \$157,930. The net assets of business type activities were \$1,454,708.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the city as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position are divided into two types of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and garbage/landfill. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Government funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The major governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax, Local Option Sales Tax, Hotel/Motel Tax Fund, CDBG and Employee Benefits Fund; 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Transfers In and Out are used to accumulate resources and allocate those resources internally among the City's various funds.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds are used to report business type activities. The City maintains three funds to provide separate information for the water, sewer, and garbage/landfill funds considering these to be major funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental and business type activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2012	2013
Receipts:		
Program receipts:		
Charges for service	226,347	135,926
Grants, contributions and restricted interest	300,116	598,222
General receipts:		
Property tax		
for general purpose	524,394	614,936
for debt service	190,643	45,132
Unrestricted investment earnings	4,350	4,097
Other City taxes	210,121	206,891
Miscellaneous	47,437	109,825
Total receipts	1,503,408	1,715,029
Disbursements:		
Public safety	435,717	497,721
Public works	184,578	209,222
Culture and recreation	238,896	186,941
Community and economic development	107,916	352,847
General government	240,012	285,338
Debt service	185,010	40,290
Total disbursements	1,392,130	1,572,359
Increase (decrease) in cash basis net assets beginning of year	111,278	142,670
Cash basis net assets (deficit) beginning of year	<96,018>	15,260
Cash basis net assets end of year	15,260	157,930

Changes in Cash Basis Net Assets of Business Type Activities

	June 30, 2012	June 30, 2013
Program Receipts:		
Charges for service		
Water	418,046	376,478
Sewer	435,189	479,671
Sanitation	138,972	143,682
Capital grants & restricted interest	402	94,318
Bond proceeds	477,068	144,252
Total receipts	1,469,677	1,238,401
Disbursements		
Water	586,689	399,285
Sewer	490,646	570,832
Sanitation	122,405	113,628
Total Disbursements	1,199,740	1,083,745
Increase(decrease) in cash balance	269,937	154,656
Cash basis net assets beginning of year	1,030,115	1,300,052
Cash basis net assets end of year	1,300,052	1,454,708

INDIVIDUAL MAJOR GOVERNMENT FUND ANALYSIS

The following are the major reasons for the changes in fund balances of certain major funds from the prior year.

- The General Fund has a deficit balance of \$<126,772>. The City will continue to cut spending when possible.
- Employee Benefit Fund cash balance is \$120,601. Benefit payments were under property tax receipts in this year.
- The Debt Service Fund cash balance has a deficit of \$<18,062> after disbursements for the year and an increase in property tax receipts. The City will need to increase the debt service levy in an upcoming budget.
- The Road Use tax fund has a cash balance of \$38,279.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$54,531.
- The Sewer Fund cash balance increased \$70,071.
- The Garbage/Landfill cash balance increased \$30,054.

INDIVIDUAL MAJOR GOVERNMENT FUND ANALYSIS

The following are the major reasons for the changes in fund balances of certain major funds from the prior year.

- The General Fund has a deficit balance of \$<290,905>. This deficit balance is a \$40,833 decrease from last year's deficit. The City will continue to cut spending when possible.
- Employee Benefit Fund cash balance is \$120,601. Benefit payments were under property tax receipts in this year.
- The Debt Service Fund cash balance has a deficit of \$<22,041> after disbursements for the year and an increase in property tax receipts. The City will need to increase the debt service levy in an upcoming budget.
- The Road Use tax fund has a cash balance of \$38,279.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$1,222.
- The Sewer Fund cash balance increased \$63,380.
- The Garbage/Landfill cash balance increased \$30,055.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$1,652,269 in bonds and other long-term debt, compared to \$1,783,960 last year, as shown below.

Outstanding Debt at Year-End		
	2012	June 30, 2013
Anticipatory note		144,252
Equipment Contract	36,217	24,534
General obligation bonds	149,716	115,716
Revenue notes	<u>1,598,033</u>	<u>1,595,502</u>
Total	1,783,966	1,595,502

The City's outstanding general obligation debt of \$115,716 is below its constitutional debt limit of \$3.9 million.

BUDGETARY HIGHLIGHTS

- The City had budget amendment in fiscal year 2013 of \$503,059 which included increases in Public Safety \$54,059 and Enterprises \$449,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Colfax's elected and appointed officials considered many factors when setting the fiscal year 2014 budget; tax rates and fees that will be charged for various City activities were discussed.

The budget for 2014 estimates revenues of 1,103,620 total governmental and expenses of 1,219,419 total governmental. Proprietary fund estimates are revenues of 1,168,000 and expenses of 941,450.

Due to careful planning, the City's budgeted cash balance is expected to remain consistent with the close of 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, tax payers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it received. If you have questions about this report or need additional financial information, contact Kathy L. Mathews, City Clerk, 19 E Howard, Colfax, Iowa.

City of Colfax, Iowa
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2013

Functions/Programs	Disbursements	Program Receipts	
		Charges for Services	Operating Grants, Contributions, and Restricted Interest
Governmental Activities			Capital Grants, Contributions and Restricted Interest
Public safety	\$ 497,721	\$ 101,693	\$ 29,010
Public works	209,222		206,222
Health and social services			
Culture and recreation	186,941	34,233	
Community and economic development	352,847		328,339
General government	285,338		34,651
Debt service	40,290		
Total governmental activities	1,572,359	135,926	598,222
Business Type Activities			
Water	399,285	375,945	77,338
Sewer	570,832	479,645	16,980
Sanitation	113,628	143,668	
Total business type activities	1,083,745	999,258	94,318
Total	\$ 2,656,104	\$ 1,135,184	\$ 598,222 \$ 94,318
General Receipts and Transfers			
Property tax levied for			
General purposes			
Debt service			
Local option sales tax			
Hotel/motel tax			
Unrestricted interest on investments			
Bond proceeds			
Other city tax and permits			
Miscellaneous			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			
Cash basis net position			
Restricted			
Nonexpendable			
Expendable			
Debt service			
Other purposes			
Unrestricted (deficit)			
Total cash basis net position			

There were no reconciling items between the Governmental and Proprietary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements

Net (Disbursements) Receipts and Changes in Cash
Basis Net Position

Governmental Activities	Business Type Activities	Total
\$ (367,018)		\$ (367,018)
(3,000)		(3,000)
(152,708)		(152,708)
(24,508)		(24,508)
(250,687)		(250,687)
(40,290)		(40,290)
(838,211)		(838,211)
	53,998	53,998
	(74,207)	(74,207)
	30,040	30,040
	9,831	9,831
\$ (838,211)	\$ 9,831	\$ (828,380)
614,936		614,936
45,132		45,132
155,558		155,558
51,333		51,333
4,097	573	4,670
	144,252	144,252
17,489		17,489
92,336		92,336
980,881	144,825	1,125,706
142,670	154,656	297,326
15,260	1,300,052	1,315,312
\$ 157,930	\$ 1,454,708	\$ 1,612,638
\$ 68,482	\$	\$ 68,482
	13,197	13,197
245,445	1,441,511	1,686,956
(155,997)		(155,997)
\$ 157,930	\$ 1,454,708	\$ 1,612,638

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2013

	Special Revenue							Other Nonmajor Governmental Funds	Total
	General	Road Use Tax	Local Option Sales Tax	Hotel/Motel Tax	Employee Benefits	CDBG	Debt Service		
Receipts									
Property taxes	\$ 428,498	\$	\$	\$	\$ 186,438	\$	\$ 45,132	\$	\$ 660,068
Other city tax	17,489		155,558	51,333					206,891
Licenses and permits	3,860								17,489
Use of money and property	63,661		104	133					4,097
Intergovernmental	135,926	206,222				328,339			598,222
Charges for services	91,125								135,926
Miscellaneous	740,559	206,222	155,662	51,466	186,438	328,339	45,132	1,211	92,336
Total Receipts									1,715,059
Disbursements									
Operating									
Public safety	407,962								497,721
Public works		190,966			89,759				209,222
Health and social services					18,256				
Culture and recreation	142,364								186,941
Community and economic development				22,709	21,868				352,847
General government	244,819		23,280		40,519	329,567			285,338
Debt Service							40,290		40,290
Total Disbursements	795,145	190,966	23,280	22,709	170,402	329,567	40,290		1,572,359
Excess (deficiency) of receipts over (under) disbursements	(54,586)	15,256	122,382	28,757	16,036	(1,228)	4,842	1,211	142,670
Other financing sources (uses)									
Operating transfers in	259,552								259,552
Operating transfers out			(233,886)	(25,666)					(259,552)
Total other financing sources (uses)	259,552		(233,886)	(25,666)					
Change in cash balances	204,966	15,256	(101,504)	3,091	16,036	(1,228)	4,842	1,211	142,670
Cash balance (deficit) - beginning of year	(331,738)	21,023	128,348	55,834	104,565	(9,935)	(22,904)	68,017	15,260
Cash balance (deficit) - end of year	(126,772)	36,279	26,844	58,975	120,601	(11,163)	(18,062)	69,228	157,930
Cash basis fund balances (deficit)									
Nonspendable - Cemetery perpetual care									68,482
Restricted for other purposes									746
Unassigned	(126,772)	36,279	26,844	58,975	120,601	(11,163)	(18,062)	69,228	157,930
Total cash basis fund balances (deficit)	(126,772)	36,279	26,844	58,975	120,601	(11,163)	(18,062)	69,228	157,930

See notes to financial statements.

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2013

	Water	Sewer	Sanitation	Total
Operating receipts				
Charges for service	\$ 375,945	\$ 479,645	\$ 143,668	\$ 999,258
Operating disbursements				
Business type activities	307,851	221,900	113,628	643,379
Excess of operating receipts over operating disbursements	68,094	257,745	30,040	355,879
Non-operating receipts (disbursements)				
Intergovernmental	77,338	16,980		94,318
Bond proceeds		144,252		144,252
Interest on investments	533	26	14	573
Debt service	(43,753)	(151,440)		(195,193)
Capital projects	(47,681)	(197,492)		(245,173)
Total non-operating receipts (disbursements)	(13,563)	(187,674)	14	(201,223)
Change in cash balances	54,531	70,071	30,054	154,656
Cash balances - beginning of year	916,934	223,108	160,010	1,300,052
Cash balances - end of year	<u>\$ 971,465</u>	<u>\$ 293,179</u>	<u>\$ 190,064</u>	<u>\$ 1,454,708</u>
Cash basis fund balances				
Restricted for debt service	\$ 3,183	\$ 10,014	\$	\$ 13,197
Assigned	968,282	283,165	190,064	1,441,511
Total cash basis fund balances	<u>\$ 971,465</u>	<u>\$ 293,179</u>	<u>\$ 190,064</u>	<u>\$ 1,454,708</u>

See notes to financial statements.

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Funds
As of and for the Year Ended June 30, 2013

	<u>Library Memorials</u>	<u>Tenant Memorial</u>	<u>IDED Project</u>
Receipts			
Donations	\$ 195	\$	\$
Investment earnings - interest	<u>45</u>	<u>1,109</u>	<u></u>
Total receipts	<u>240</u>	<u>1,109</u>	<u></u>
Disbursements	<u></u>	<u></u>	<u></u>
Excess of receipts over disbursements	240	1,109	
Cash balance - beginning of year	40,211	67,475	1,143
Cash balance - end of year	<u><u>\$ 40,451</u></u>	<u><u>\$ 68,584</u></u>	<u><u>\$ 1,143</u></u>

CITY OF COLFAX, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1/ Summary of Significant Accounting Policies

The City of Colfax is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units that meet the criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards, commissions and 28E agreement: Jasper County Assessor's Conference Board, Selective Enforcement Response Team and Safety Coalition of Central Iowa Cities, City- County Planning Board, and Central Iowa Committee and a 28 E agreement for police, fire and emergency response with the City of Mitchellville.

The City also participates in the Jasper County Animal Rescue League and Humane Society with other municipalities in an organization under Chapter 28E of the Code of Iowa and paid fees to the organization \$3,615 during the fiscal year.

B. Basis of Presentation

Government-wide Financial Statements – The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net position presents the City's non-fiduciary net position. Net Position is reported in three categories:

Nonexpendable restricted net position are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net position result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consist of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those which are clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax is used to account for the City's sales tax receipts and the disbursements financed by such.

The Hotel/Motel Tax Fund is used to account for the City's hotel/motel tax receipts and the disbursements financed by such.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

The CDBG Fund accounts for the proceeds from the Community Development Block Grant and the disbursements financed by such.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation of the City's solid waste disposal system.

C. Measurement Focus and Basis of Accounting

The City of Colfax maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then less restrictive classifications- committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable- Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted- Amounts restricted to specific purposes when constraints places on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned- Amounts the Council intends to use for specific purposes.

Unassigned- All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

2/ Cash and Pooled Investments

The City's deposits at June 30, 2013 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City.

3/ Bonds and Notes Payable

On December 21, 2012 the City issued a \$232,500 general obligation sewer improvement loan and disbursement agreement anticipation project note to the Iowa Finance Authority. By June 30, 2013, the City had received \$144,252 but the complete repayment schedule was not established therefore it is not included in the schedule below..

The annual debt service requirement to maturity for general obligation notes, and the revenue notes and bonds are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes and Bonds		Total Annual Debt Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	23,716	4,856	132,000	26,355	155,716	31,211
2015	21,000	3,823	136,000	23,670	157,000	27,493
2016	21,000	2,912	140,000	20,903	161,000	23,815
2017	10,000	2,000	146,000	18,052	156,000	20,052
2018	10,000	1,600	150,000	28,770	160,000	30,370
2019-2022	30,000	2,400	607,000	14,473	637,000	16,873
Totals	\$ 115,716	\$ 17,591	\$ 1,311,000	\$ 132,223	\$ 1,426,716	\$ 149,814

The City has pledged future water receipts, net of specified operating disbursements, to repay \$510,000 in water revenue bonds issued February, 2012. Proceeds were used to provide financing to water system improvements. The obligations are payable solely from water customer net receipts and are payable through 2021. During the year, part of the obligation was forgiven with the completion of the project. After the forgiveness, the total principal and interest to be paid on the obligations is now \$ 311,340. For the current year, principal and interest paid was \$42,995 and total customer net receipts were \$68,094.

The City has pledged future sewer receipts, net of specified operating disbursements, to repay \$2,234,000 in sewer revenue note and bonds issued in May 2001 and March 2003, respectively. Proceeds were used to provide financing for the construction of improvements to the sewer plant. The obligations are payable solely from sewer customer net receipts and are payable through 2022. Effective June 1, 2013 the annual interest rate on the remaining balance was reduced to 1.75%. After the reduction, the total principal and interest remaining to be paid on the obligations is \$1,131,883. For the current year, principal and interest paid was \$148,597 and total customer net receipts were \$257,745.

The resolutions providing for the issuance of the note and bonds include the following provisions:

- The notes or bonds will only be redeemed from the future earnings of the water and sewer activities and the holders hold a lien on the future earnings of each fund.
- Sufficient monthly transfers shall be made to a separate revenue bond sinking account for the purpose of making the next principal and interest payments.
- The City shall establish, impose, adjust and provide for the utility rates to produce gross revenues at least sufficient to leave a balance, after specified operating disbursements, equal to 110% of the principal and interest due in any fiscal year.

Equipment Purchase Contract-

In February, 2010, the City entered into an equipment purchase contract totaling \$58,204 to purchase a backhoe. The annual payment of \$13,186, including interest at 4.15%, began February, 2011 and will continue each year until February, 2015. At June 30, 2013 the unpaid principal balance was \$24,534.

4/ Tax Increment Financing

In 1988, 1991, 1999 and 2012, the City established three urban renewal districts and is permitted to make agreements with the county and school, in accordance with Chapter 403.19 of the Code of Iowa, to divide the increase in taxes, as a result of the incremental property tax valuation in those districts.

In July 2001, the City and Jasper County entered into a 28E agreement to develop the Colfax I-80 Interchange Urban Renewal Project area. The City extended its water and sanitary sewer service to the area. By June 30, 2011, the County had loaned the City \$1,197,501 for the extension costs and \$80,175 to reimburse engineering costs. The County collects and retains the tax increment revenues collected from the taxable properties located in the area. If upon maturity of the loan, the revenue collected is not sufficient to fully reimburse the County for all the principal and interest paid by the County, on its loan for this specific purpose, the City will be obligated to repay the unpaid balance plus interest at the rate then being paid by the County on its loan. Since the repayment is contingent on future taxes paid in the Urban Renewal Project area, the amounts of the payments, if any, are not readily determinable.

In January 2013, the City and Jeff Light (the developer) entered into a development agreement to construct a Subway restaurant. The City will pay up to \$70,000 in tax increment financing taxes to the developer beginning on the date the incremental taxes becomes available. The City has certified the agreement to the county auditor. The obligation is not a general obligation of the City, however, the debt is subject to the constitutional debt limitation of the City.

5/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$49,448, \$45,992, and \$ 44,396, respectively, equal to the required contributions for each year.

6/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2013. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2013, primarily relating to the General Fund, was \$51,000.

7/ Other Postemployment Benefits (OPEB)

Plan Description- The City participates in a multi-employer benefit plan which provides medical/prescription drug and dental benefits for active employees, retirees and their spouses. There are 9 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The benefits are provided through a fully-insured plan with Central States Southeast and Southwest Areas Health and Welfare and Pensions Fund. Retirees under age 65 pay the full premium for the benefits while the City contributes to the premium of active employees.

Funding Policy- The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member weekly premiums are \$268 for the City and \$30 for active employees. The contribution requirements of plan members are established and may be amended by the City. For the year ended June 30, 2013, the City contributed \$133,053 and plan members eligible for benefits contributed \$15,420 to the plan.

8/ Landfill Closure and Postclosure Care

The City has entered into an agreement with several other municipalities, as allowed under Code of Iowa Section 28E, to provide for economical and environmentally responsible disposal of solid waste and establish permanent environmental responsibility for the Newton Sanitary Landfill. State and federal laws and regulations require the Newton Sanitary Landfill to place a final cover on the site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. To date, 31% of the landfill has been filled and the estimated total liability for such is \$ 4,870,000, based on 2013 cost estimates. Actual costs may be higher due to inflation, technology changes, and changes in regulations.

The Code of Iowa requires the Landfill to maintain separate closure and postclosure care accounts to accumulate resources for the payment of these costs. To date \$ 835,395 has been accumulated. Since the estimated closure and foreclosure costs have not been fully funded, the Landfill is required to demonstrate financial assurance for the unfunded costs. The Landfill has adopted the local government financial test assurance mechanism and has met the requirement issued by the Iowa Department of Natural Resources. The unfunded liability will be funded over the estimated remaining life of the Landfill. In the event it is not funded appropriately, the 28E agreement makes the City of Colfax responsible for 4.96 % or approximately \$289,000 based on the June 30, 2013 information. The City's proportionate share is updated annually in accordance with the agreement.

9/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

	Transfer to General
Transfer from	
Local Option	233,886
Hotel/Motel Tax	25,666
	<u>\$ 259,552</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

10/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,499 during the year ended June 30, 2013.

11/ Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

13/ Deficit Fund Balances

At June 30, 2013 the General, Debt Service and CDBG Funds had deficit balances of \$126,772, \$18,062, and \$11,163, respectively. The deficit in the General Fund may be reduced by transfers from the Proprietary Fund operating accounts to the extent possible. The deficit in the Debt Service Fund will be reduced by increasing property tax levies in subsequent years. The CDBG Fund will be reduced by future grant receipts.

14/ Economic Development Loan

In 2004, with funds from the Iowa Department of Economic Development (IDED), the City loaned \$150,000 to a local manufacturing company which employed 40 people. The loan was forgivable to the extent of \$75,000 and the company fulfilled the requirement for such. Repayments totaling \$21,250 were received through 2007 on the \$75,000 balance. Any repayments were to be used by the City for similar projects. In 2009, a new company acquired the assets and received a \$25,000 loan and a \$25,000 forgivable loan from IDIED. In addition, the City loaned \$20,000 which was to be repaid, beginning March 1, 2011, with annual payments of \$2,000. To date nothing has been received.

The City also requested payment of the \$53,750 remaining balance, plus interest, from the owners of the old company. To date nothing has been received.

15/ Subsequent Event

The City has approved issuance of General Obligation Sewer Improvement Bonds not to exceed \$1,200,000 for the planning, designing and constructing improvements and extensions to the sanitary sewer system.

City of Colfax, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Other Information
 Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property taxes	\$ 660,068	\$	\$ 660,068
Other city tax	206,891		206,891
Licenses and permits	17,489		17,489
Use of money and property	4,097	573	4,670
Intergovernmental	598,222	94,318	692,540
Charges for service	135,926	999,258	1,135,184
Miscellaneous	92,336		92,336
Total Receipts	<u>1,715,029</u>	<u>1,094,149</u>	<u>2,809,178</u>
Disbursements			
Public safety	497,721		497,721
Public works	209,222		209,222
Health and social services			
Culture and recreation	186,941		186,941
Community and economic development	352,847		352,847
General government	285,338		285,338
Debt service	40,290	195,193	235,483
Capital projects		245,173	245,173
Business type activities		643,379	643,379
Total Disbursements	<u>1,572,359</u>	<u>1,083,745</u>	<u>2,656,104</u>
Excess of receipts over (under) disbursements	<u>142,670</u>	<u>10,404</u>	<u>153,074</u>
Other financing sources- net		<u>144,252</u>	<u>144,252</u>
Excess of receipts over (under) disbursements and other financing sources	<u>142,670</u>	<u>154,656</u>	<u>297,326</u>
Balances - beginning of year	15,260	1,300,052	1,315,312
Balances - end of year	<u>\$ 157,930</u>	<u>\$ 1,454,708</u>	<u>\$ 1,612,638</u>

See accompanying independent auditors' report.

Budgeted Amounts		
Original	Final	Final to Net Variance
\$ 641,620	\$ 641,620	\$ 18,448
231,484	231,484	(24,593)
11,375	11,375	6,114
2,500	2,500	2,170
196,742	496,742	195,798
972,500	972,500	162,684
33,000	33,000	59,336
2,089,221	2,389,221	419,957
465,706	519,765	22,044
213,330	213,330	4,108
12,000	12,000	12,000
184,026	184,026	(2,915)
20,000	20,000	(332,847)
282,699	282,699	(2,639)
40,583	40,583	(194,900)
		(245,173)
781,941	1,230,941	587,562
2,000,285	2,503,344	(152,760)
88,936	(114,123)	267,197
	54,059	90,193
88,936	(60,064)	357,390
1,315,668	1,315,668	(356)
\$ 1,404,604	\$ 1,255,604	\$ 357,034

City of Colfax, Iowa
Notes to Other Information – Budgetary Reporting
June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not been able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$ 503,059. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the Culture and Recreation, Community and Economic Development and General Government functions.

Budgeted disbursements were also exceeded in the Debt Service and Capital Project functions. This was primarily due to: classifying enterprise funds debt service as business type function in the published budget rather than debt service. In addition capital projects were published as business type function rather than capital project in the financial statements. If the proper functions had been used, disbursements would not have been exceeded.

City of Colfax, Iowa
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2013

	Special Revenue	Permanent Cemetery Perpetual Care	Total
Receipts			
Miscellaneous	\$	\$ 1,211	\$ 1,211
Total Receipts		1,211	1,211
Disbursements			
Excess of receipts over disbursements		1,211	1,211
Cash balance - beginning of year	746	67,271	68,017
Cash balance - end of year	<u>\$ 746</u>	<u>\$ 68,482</u>	<u>\$ 69,228</u>
Cash basis fund balances			
Nonspendable	\$	\$ 68,482	\$ 68,482
Restricted	746		746
Total cash basis fund balances	<u>\$ 746</u>	<u>\$ 68,482</u>	<u>\$ 69,228</u>

See accompanying independent auditor's report.

City of Colfax, Iowa
Schedule of Indebtedness
For the year ended June 30, 2013

	Date of Issue	Interest Rates	Amount Originally Issued
Obligation			
General Obligation Notes			
Lake Street Sewer	October 1, 2004	4.50%	100,000
Water and Sewer Improvements	October 24, 2006	4.65%	110,000
Street Improvements	September 1, 2010	4.00%	100,000
Totals			
Revenue Notes and Bonds			
Water Revenue Bonds	February 24, 2012	3.00%	510,000
Debt Forgiven June 1, 2013			
Sewer Revenue Bonds	March 15, 2003	1.75%	1,984,000
Sewer Revenue Note	May 8, 2001	6.25%	250,000
Totals			
Equipment Contract- Backhoe	February 24, 2010	4.15%	58,204
SRF Anticipatory Note for Planning and Design	December 21, 2012	0%	232,500

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 15,716	\$	\$ 13,000	\$ 2,716	\$ 566
44,000		11,000	33,000	2,074
90,000		10,000	80,000	3,650
<u>\$ 149,716</u>		<u>\$ 34,000</u>	<u>\$ 115,716</u>	<u>\$ 6,290</u>
 \$ 446,068	 \$	 \$ 29,947		
		143,121	\$ 273,000	\$ 13,048
1,137,000		99,000	1,038,000	34,110
14,965		14,965		522
<u>\$ 1,598,033</u>		<u>\$ 287,033</u>	<u>\$ 1,311,000</u>	<u>\$ 47,680</u>
 \$ 36,217	 \$	 \$ 11,683	 \$ 24,534	 \$ 1,504
 \$	 \$ 144,252	 \$	 \$ 144,252	 \$

City of Colfax, Iowa
Bond and Note Maturities
For the year ended June 30, 2013

Year Ending June 30,	Lake Street Sewer		Water and Sewer Improvements		Street Improvement	
	Issued October 1, 2004		Issued October 24, 2006		Issued September 1, 2010	
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
2014	4.50	2,716	4.65	11,000	4.00	10,000
2015			4.65	11,000	4.00	10,000
2016			4.65	11,000	4.00	10,000
2017					4.00	10,000
2018					4.00	10,000
2019					4.00	10,000
2020					4.00	10,000
2021					4.00	10,000
Totals		<u>\$ 2,716</u>		<u>\$ 33,000</u>		<u>\$ 80,000</u>

Year Ending June 30,	Water Revenue Bonds		Sewer Revenue Bonds		Total Revenue Bonds
	Issued February 24, 2012		Issued March 15, 2003		
	Interest		Interest		
	Rates (%)	Amount	Rates(%)	Amount	
2014	3.00	30,000	1.75	102,000	132,000
2015	3.00	31,000	1.75	105,000	136,000
2016	3.00	32,000	1.75	108,000	140,000
2017	3.00	34,000	1.75	112,000	146,000
2018	3.00	35,000	1.75	115,000	150,000
2019	3.00	36,000	1.75	118,000	154,000
2020	3.00	37,000	1.75	122,000	159,000
2021	3.00	38,000	1.75	126,000	164,000
2022			1.75	130,000	130,000
Totals		\$ 273,000		\$ 1,038,000	\$ 1,311,000

See accompanying independent auditors' report.

Total General Obligation Notes
23,716
21,000
21,000
10,000
10,000
10,000
10,000
10,000
<u>\$ 115,716</u>

Schedule 4

City of Colfax
Schedule of Receipts by Source and Disbursements by Function
All Government Funds
For the Last Nine Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts									
Property taxes	\$ 660,068	\$ 715,037	\$ 679,221	\$ 633,148	\$ 661,194	\$ 627,494	\$ 583,887	\$ 529,100	\$ 557,068
Tax increment financing collections				26,699	23,036	17,140	17,426	16,114	17,510
Other city tax	206,891	224,624	249,343	238,398	236,577	229,257	213,583	338,289	181,448
Licenses and permits	17,489	24,784	10,350	12,898	9,198	12,363	22,075	19,277	15,622
Use of money and property	4,097	4,350	6,933	12,514	19,999	22,702	22,415	14,512	5,579
Intergovernmental	598,222	300,116	238,912	237,890	256,998	418,635	256,279	207,885	196,590
Charges for service	135,926	156,178	120,678	130,646	119,656	144,787	108,484	140,273	197,131
Special assessments				10,731	46,797				
Miscellaneous	92,336	78,319	105,097	64,615	81,213	24,970	73,784	93,437	119,495
Total	\$ 1,715,029	\$ 1,503,408	\$ 1,410,534	\$ 1,367,539	\$ 1,454,668	\$ 1,497,348	\$ 1,297,933	\$ 1,358,887	\$ 1,290,443
Disbursements									
Operating									
Public safety	\$ 497,721	\$ 435,717	\$ 450,330	\$ 612,848	\$ 486,489	\$ 408,237	\$ 384,234	\$ 376,397	\$ 512,601
Public works	209,222	184,579	302,819	213,773	335,071	503,078	246,762	326,697	284,064
Health and social services			4,217	5,900					6,182
Culture and recreation	186,941	238,896	172,112	229,619	256,398	186,962	174,050	180,711	167,381
Community and economic development	352,847	107,916	130,449	31,126	43,916	83,565	3,001	3,000	3,001
General government	285,338	240,012	235,094	175,296	180,088	177,694	200,153	272,783	284,583
Debt service	40,290	185,010	198,018	194,521	201,880	242,514	188,570	172,458	122,653
Total	\$ 1,572,359	\$ 1,392,130	\$ 1,493,039	\$ 1,463,083	\$ 1,503,842	\$ 1,602,050	\$ 1,196,770	\$ 1,332,046	\$ 1,380,465

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANT

JAMES R. ZIRCHER, CPA

5650 JOHNSTON DRIVE, SUITE A
P.O. BOX 1098
JOHNSTON, IOWA 50131
TELEPHONE (515) 251-8520
FAX (515) 251-3177
CPAs@POLLARDCPA.COM

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the City Council

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon as dated below. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Colfax's internal control over financial reporting as a basis for designing my auditing procedures to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, I have identified a deficiency in internal control, described in Part I of the accompanying Schedule of Findings that I consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Colfax's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City's Responses to Findings

The City of Colfax's responses to findings identified in my audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

April 30, 2014

Pollard and Company P.C.

CITY OF COLFAX, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

- I-A-13 Segregation of Duties
One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. i noted that generally one person has control over each of the following areas:
- (1) Cash receipts, journalizing and posting.
 - (2) Disbursements, check writing, signing, mailing, journalizing and posting.
 - (3) Payroll preparation and distribution.

Recommendation

I realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We have attempted to involve the mayor, council, deputy city clerk, and department heads to produce more segregation of duties of the above functions. We will continue to review the internal control procedures and continue to segregate duties to the extent possible.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting

- II-A-13 Certified Budget
Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the Culture and Recreation, Community and Economic Development, and General Government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

See explanation in Notes to Other Information – Budgetary Reporting. The budget will be amended in the future, as applicable.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting (continued)

II-B-13 Questionable Disbursements
I noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-13 Travel Expense
I noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

II-D-13 Business Transactions
Business transactions between the City and City officials or employees are as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bryan Poulter, Council Member,	Swimming Pool Manager Wages	\$2,499

In accordance with Chapter 362.5(10) of the Code of Iowa, this transaction does not appear to be a conflict of interest, since the duties of the function are not incompatible with duties as a Council Member.

II-E-13 Bond Coverage
Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-13 Council Minutes
No transactions were found that I believe should have been approved in the Council minutes but were not.

II-G-13 Deposits and Investments
I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-13 Financial Condition
The General, Debt Service, and CDBG Funds had deficit balances at June 30, 2013 of \$126,772, \$18,062, and \$11,163, respectively.

Recommendation
The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response
Note 13 of the financial statements describes the City's plans to eliminate the deficits.

Conclusion
Response accepted.

II-I-13 Urban Renewal Annual Report
The urban renewal annual report was approved and certified to the Iowa Department of Management.